
Procurement Policy and Defense Industry in Japan

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JDA Procurement Policy

In 1970, the Japan Defense Agency established a basic policy to promote domestic development and production of equipment with the aim of procuring equipment suitable for Japanese conditions. The procurement considerations include the following:

- Suitability to the plan of operations
- Ease of improvement, upgrade, maintenance and supply
- Maintaining and securing production and technological bases
- Technological risks
- Cost effectiveness
- Effect on employment and income

The chart shows sources of equipment procurement.

Division		Characteristics
Domestic Production	Domestic Development	Suitable for the plan of operations Contribute to maintain bases Technological risks Expensive
	Co-Development with the U.S.	Small technological risks Contribute to maintain bases rather expensive
	Licensed Production	Small technological risks Quickly procurable Difficult to improve
Imports	Commercial Imports	Generally cheap No technological risks Difficult to improve
	Foreign Military Sales	No contribution to maintaining bases

The Three Principles of Arms Export and Japan-U.S. Technology Exchange

With the aim of preventing further international conflict, the government of Japan established Three Principles on Arms Export in 1962 and strengthened it in 1976. The outline of this policy is:

- The export of arms shall be prohibited to:
 - Communist bloc countries
 - Countries to which the export of arms is prohibited under U.N. resolution
 - Countries involved in or likely to become involved in international conflict.
- The export of arms to other areas shall be restrained in line with the spirit of the Constitution.
- Equipment related to arms production shall be treated as if it were arms.

On the other hand, the Japan-U.S. Security Treaty calls on the two countries to cooperate in maintaining and developing their respective defense capabilities. The “Mutual Defense Assistance Agreement between Japan and the United States” provides the framework for this.

In 1983, Japan decided to open the way for the transfer of military technology to the United States as an exception to the Three Principles. Japan has since transferred ten items to the United States.

Japan and the U.S. have regularly held meetings of the Japan-U.S. Systems and Technology Forum (S&TF), acting on the long-standing agreement to expand reciprocal technology exchanges. Such mutual technology exchange will be promoted through specific research projects.

Defense Industry in Japan

Significance of Defense Production and Technological Bases

In general, a country's defense capability, in equipment terms, is based primarily on its manufacturing capability. The Defense Agency believes that a healthy and efficient defense industry is an essential condition for the appropriate build-up of defense capability. Therefore, equipment acquisition programs will be implemented with overall consideration of such factors as speedy emergency re-supply, education and training requirements, and cost effectiveness. This includes future expenditure required by equipment introduction, with special attention to developing procurement and supply mechanisms to help reduce procurement cost. Attention will also be given to maintaining defense production and technology foundations through appropriate promotion of domestic products.

Current Status of Defense Production

Initially, the Self Defense Forces (SDF) obtained equipment mainly from gratis assistance from the U.S. Japan's industrial reconstruction led to private domestic enterprises starting defense production. The SDF now procures most of its needs from domestic sources, importing only certain types of technology.

In FY 1996, the Defense Agency's domestic procurement amounted to ¥1.87 trillion, 93% of total procurement of ¥2.02 trillion.

Characteristics of Japan's defense industry are:

- A broad range of industries, from manufacture of aircraft and vessels to garments and food.
- Main contractors and related enterprises including subcontractors produce a range of parts.
- Japanese industry is limited to meeting domestic demand under the Three Principles. Over 2,500 enterprises (60% being very small) are involved in manufacture of 4,400 ton destroyers.

Defense industry accounts for about 0.6% of Japan's domestic production. The ratio of defense production to total sales of each enterprise is very small, except that manufacturers of aircraft, arms and ammunition rely on the Defense Agency for much of their business.

The Environment Surrounding Defense Industry and the Changes It Faces

Defense procurement volume has a continuing downward trend, placing financial stress on defense industry. Defense manufacturers are countering this by rationalizing management practices and improving efficiency in ways such as personnel reassignment and reduction of capital investment. Should the defense industry base collapse, it will take much time and money to recover the special skills and facilities. It is therefore increasingly important to secure and maintain sound and efficient defense production and technological bases.

Promotion of Acquisition Reform

Purpose of Acquisition Reform of the JDA

The new National Defense Program Outline (NDPO) approved by the Cabinet in November 1995 emphasizes the need to focus on developing procurement and supply systems that reduce costs. The purpose of Acquisition Reform is to develop procurement and supply arrangements that will control life cycle equipment costs.

In May 1996, the Defense Agency created the Acquisition Reform Committee under the chairmanship of the director-general of the Bureau of Equipment. The committee consists of representatives from related organs of the agency and there are a general session and six working groups.

In June 1998, the Acquisition Reform Committee completed two years of study. A summary of its report is:

- Measures in various Life Cycle Stages
 - *Research and development:* The JDA examined ways to reduce production costs of 17 equipments under development in FY 1997, achieving an estimated 16% reduction.

° *Procurement:* The JDA has reviewed National Defense Specifications and Standards from the viewpoint of utilising commercial products and technologies. By FY 2000, about 9,000 of the 18,000 specifications and standards will have been reviewed. Within three years half of the 2,000 National Defense Standards will have been abolished.

° *Maintenance and repair:* The JDA has reviewed routine maintenance and inspection of major vessels and aircraft. It will also utilize “Engineering Change Proposal” procedures in the maintenance and repair including greater use of common parts and revisions of forms.

° *Life Cycle in general:* Simplifying government procurement.

- The JDA will introduce ISO 9000 to aircraft in FY 1998, communications and electronic equipment in FY 1999, and all other equipment needing quality assurance in FY 2001.

- Encouraging corporate efforts for cost reduction.

° Recognizing the importance of competition in procurement, the JDA is reviewing the use of non-competitive and designated contracts. It has to date converted approximately 600 such formerly contracts to limited competitive contracts.

° Voluntary costs reduction submissions were sought from major defense enterprises. The goal was to reduce equipment unit costs by ten percent within five years. The JDA has decided to accelerate this, reducing procurement costs by ¥22 billion against FY 1999 budget.

Promotion of CALS

The JDA is developing a “CALS promotion plan” to fully digitize information related to the procurement of major equipment by FY 2003, that is, a two year acceleration of CALS promotion compared to the former plan. Also, the JDA will construct CALS common infrastructure system between JDA and defense industries.

Further Promotion of Acquisition Reform

The JDA will hold Acquisition Reform Committee meetings regularly in order to get a profit from the Acquisition Reform. Related organizations must cooperate with each other for further promotion of the Acquisition Reform.

About the Author

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